January 17, 2002

NOTICE OF *EX PARTE* PRESENTATION

Magalie Roman Salas
Secretary
Federal Communications Commission
445 – 12th Street, SW, Room TW A325
Washington, DC 20554

Re: *2000 Biennial Regulatory Review – Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2 (Phase 2 Order)*
CC Docket No. 00-199

Dear Ms. Salas:

On January 16, 2002, the undersigned and Gerald Asch (Verizon), Joann Barron (Verizon), Rob Binder (Citizens-Frontier), David Cameron (ALLTEL), Lin Fox (SBC), Mary Henze (BellSouth), Tom Paolucci (Cincinnati Bell) and Pat Rupich (Cincinnati Bell) met with Sheryl King of the Cable Services Bureau and Clifford Rand, Tim Peterson, Fatina Franklin, Ronald Kaufman, Andrew Mulitz and Mika Savir of the Common Carrier Bureau in order to discuss matters concerning the *Phase 2 Order*. The attachments hereto were used in the meeting and provide a detailed summary of the presentation made during the meeting. In accordance with Commission Rule 1.1206(b)(2), this Notice of *Ex Parte* Presentation and attachments are being filed with you electronically for inclusion in the record of the above-referenced proceeding. Should you have questions, please contact me at (202) 326-7300.

Sincerely,

Lawrence E. Sarjeant
Vice President – Law
and General Counsel

attachments

cc: Sheryl King
Clifford Rand
Tim Peterson
Fatina Franklin
Ronald Kaufman
Andrew Mulitz
Mika Savir

01/16/02

ADDITIONAL PHASE 2 IMPLEMENTATION ISSUES

1. There appears to be an inconsistency between the order and the rules relative to Account 6620. Paragraph 64 indicates that the wholesale/retail distinction is important for customer services; yet the new Part 32 rule requires this breakdown for customer services, call completion services and number services. Paragraph 64 " The wholesale versus retail distinction is important for customer service…."

   One of the reasons for the breakdown of wholesale and retail, also in paragraph 64, is to "… assist the states in developing UNE rates that properly reflect the costs of providing a wholesale service." Although incumbent carriers do sell operator services to other carriers (wholesale), because call completion services and number services are already competitive, these activities are not included in UNE studies.
   See par 442 of the UNE Remand Order (CC Docket 96-98, FCC 99-238) "Accordingly, incumbent LECs need not provide access to its OS/DA as an unbundled network element."

   Because the wholesale/retail breakdown was not proposed in the Public Notice specifically for the Services accounts, carriers assumed that the Commission did not intend to adopt that part of the NPRM. Incumbent carriers did, however, comment on the new accounts that were proposed for UNEs, Resale, etc.

   After further analysis, carriers have identified the following:

Allocations would need to be performed

An allocation method would need to be used to separate costs into wholesale and retail for those situations where the same person or activity supports both wholesale and retail functions. However, the Chart of Accounts was not intended to contain cost allocation processes. Part 32.2(c), "…the financial accounts of a company should not reflect an *a priori* allocation…" Typically allocations are performed outside of the Part 32 process.

Incumbent carriers have intentionally integrated wholesale and retail functions, especially for competitive services such as those involving operators. Besides being efficient, this integration assists carriers in complying with the nondiscrimination provisions of Section 272(c) "In dealing with its affiliate described in subsection (a), A Bell operating company -- (1) may not discriminate between that company or affiliate and any other entity in the provision or procurement of goods, services, facilities, and information, or in the establishment of standards."

Incumbent carriers have determined that all Number Services and Call Completion Services would require an allocation. As a result special studies would need to be developed and applied <u>prior</u> to journalization to identify wholesale vs. retail for Number Services and Call Completion Services. (Class A ILEC ARMIS data from year 2000 shows that these costs make up 16% of all services costs).

Depending on the carrier, from 25% to 60% of the remaining costs, Customer Services costs, would also require special studies, for costs such as supervision, postage, bill remittance processing, etc. (Customer Services costs are 84% of all services costs.)

2. USTA Phase 2 comments indicated that incumbent carriers do not have data sources that allow measurement of just the local loop portion of Sheath Kilometers on ARMIS 43-07, Table II. A further explanation follows.

   Incumbent carriers provide Sheath Kilometers today on the ARMIS report. This information is obtained from the carrier's Continuing Property Records. The CPR can identify Sheath Kilometers by aerial, underground, etc., not by loop, trunk or interoffice. In order to implement such a requirement, various special study calculations would need to be developed to estimate the portion of the actual sheath kilometers that can be attributed to loop. For example, the Separations process uses studies to identify the loop cable and wire investment because loop investment is not uniquely identified. The separations freeze no longer requires such studies to be performed. The Phase 2 order did not indicate the intended use of reported Loop Sheath Kilometers. If this information is essential to track competition, all facilities-based carriers, not just ILECs, should make this information available.

3. The additional items for Table II of ARMIS 43-07 would require two ARMIS 43-07 reports, a Public version and a Confidential version.

   Asymmetric xDSL and symmetric xDSL channels are already reported on the FCC Form 477 in Part I: Broadband, Section A, Lines I-1 and I-2. (This should not have to be reported a second time.) xDSL Terminated at Customer Premises via Hybrid Fiber/Metallic Interface Locations is a further breakdown of the already reported information. xDSL information is treated as confidential on the FCC Form 477.

   To insure competitive neutrality, items such as Hybrid Fiber/Metallic Loop Interface Location and related Switched Access lines would also require confidential treatment. (For example, lines by wire center needed for the USF model, are reported as confidential.)

   Incumbent carriers are unclear as to the intended use of the new Table II ARMIS 43-07 information and why only certain ILECs are being asked to report this information on ARMIS. If the information is needed to measure local competition or broadband, all facilities-based carriers should be required to report the information on the FCC Form 477. If the information is needed for USF, the information should be requested as part of the confidential USF data request.

4. The Phase 2 Order requires mid-size carriers to continue to file ARMIS 43-02 and ARMIS 43-03 reports on April 1, 2002. The Commission has waived first time filers (Roseville and Century Tel) from having to provide ARMIS reports on April 1, 2002 (see ¶ 202 of the Phase 2 order). Since the Commission has already determined that ARMIS 43-02 and ARMIS 43-03 information is no longer necessary to be reported by any Midsize Class B carrier beginning April 1, 2003, would the Commission also consider waiving the April 1, 2002 requirement not just for Roseville and Century Tel, but for all remaining Midsize Class B carriers?

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PHASE 2 ERRATA ITEMS

1. One of the statements in the Phase 2 order conflicts with the calculations allowed in the Pole Attachment Order.

   Footnote 84 of the Phase 2 order indicates that "In addition, Class A carriers must maintain and report pole and conduit-specific information related to Accounts 4100 (net current deferred operating income taxes) and Account 4340 (net noncurrent deferred operating income taxes)."

   However, the Pole Attachment Order, CS Docket No. 97-98 does not require pole and conduit-specific information be kept or reported for Accounts 4100 and 4340. Instead the order allows for taxes to be derived from the main tax accounts. Par 63 "Under 47C.F.R. Part 32, Section 32.22(a), LECs are required to provide their current and noncurrent deferred tax data in Accounts 4100 and 4340, respectively. The formula for the net cost of a bare pole includes accumulated deferred taxes which are derived by adding Accounts 4100 and 4340. The sum of these two accounts is then multiplied by the ratio of gross pole investment to total gross plant investment to calculate the net deferred operating income taxes for poles."

   The Part 32 rules also do not require these tax accounts to be subdivided into poles and conduit. The only required subsidiary records for Accounts 4100 and 4340 are for property vs. nonproperty. The Phase 2 order did not change the rules for Accounts 4100 and 4340 and CS Docket No. 97-98 did not create a new requirement for carriers to maintain and report the Pole and Conduit portions of the Tax accounts.

2. Carriers are not sure why the Class B Account for Long Distance Message Revenue was changed from Account 5100 to Account 5105. Carriers are hoping this was a typing error and that the Commission intended to roll up the Class A accounts to the existing Class B account without renumbering the Class B account.